Directorate of Intelligence

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International Economic & Energy Weekly [redacted]

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Comments and queries regarding this publication are welcome. They may be directed to [redacted] *Directorate of Intelligence,* [redacted] 25X1

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Synopsis

Perspective—*Sub-Saharan Africa's Food Problem* [redacted] 25X1

Drought-related crop failures this year in Sub-Saharan Africa have led to widespread food shortages that will persist into 1984. We believe that African leaders will levy additional aid requests on donors, particularly the United States. [redacted] 25X1

Sub-Saharan Africa: Impact of Drought [redacted] 25X1

Sub-Saharan Africa is suffering from what has been described as the worst drought in the century. Crops have been devastated, and for many in the region food production will not meet requirements. [redacted] 25X1

Southern Africa: Food Trade [redacted] 25X1

The severe drought over the past two years has altered the traditional roles of South Africa and, to a lesser extent, Zimbabwe, as regional food suppliers. [redacted] 25X1

1983 Soviet Crop Prospects: Best in Five Years [redacted] 25X1

Barring a major deterioration in weather conditions, it now appears that the USSR is headed for a grain crop of some 210 million tons in 1983, the fourth largest ever and the best performance since the 1978 record of 237 million tons. While this would put the USSR within 15-20 million tons of the amount of grain necessary to meet domestic requirements, we believe that Soviet grain imports during the marketing year, which began on 1 July, will be in the 25- to 30-million-ton range. [redacted] 25X1

Long-Term Grain Agreements: Leverage and Vulnerabilities in Coming Renegotiations [redacted] 25X1

Long-term grain agreements (LTAs) account for a small share of global grain trade, but they are instrumental in East-West grain trade. Although the new US-USSR agreement announced last week is likely to mark the end of major new grain commitments for the next 18 months, beginning in late 1984 nearly all the LTAs now in effect will start coming up for renewal. [redacted] 25X1

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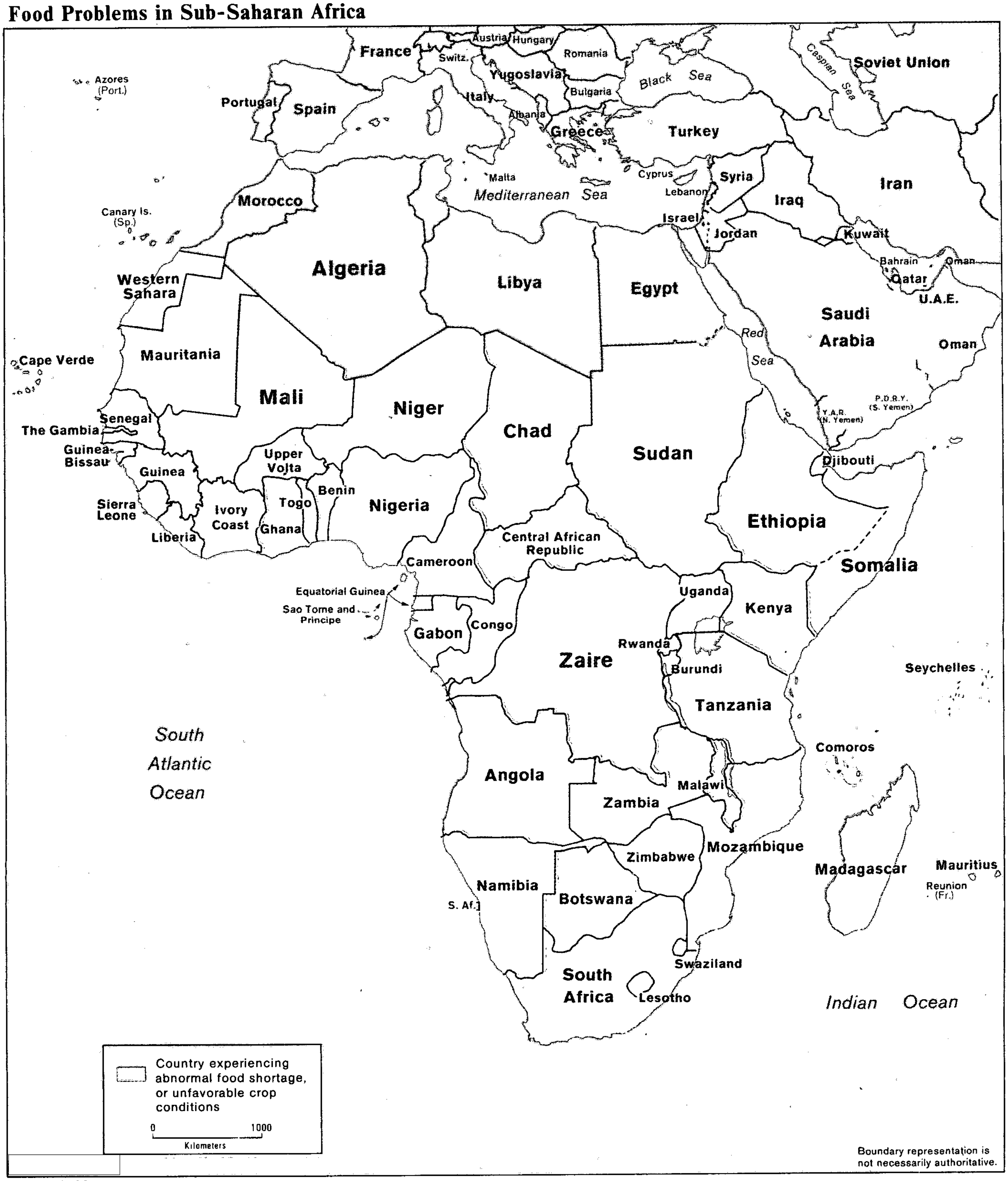
Food Problems in Sub-Saharan Africa



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Perspective

Sub-Saharan Africa's Food Problem

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Drought-related crop failures this year in Sub-Saharan Africa have led to widespread food shortages that will persist into 1984. The United Nations Food and Agriculture Organization estimates that 21 countries in the region are experiencing abnormal food shortages or unfavorable crop conditions and that total food deficits could amount to 2.6 million tons during 1983-84:

- South Africa, normally a major exporter of corn to other African countries, has been forced for the first time in 20 years to import corn for domestic consumption. Moreover, Pretoria cannot meet its export commitments to some traditional customers such as Zambia, which is itself suffering its second year of drought.

- Drought in Lesotho has destroyed 75 percent of this year's grain crop and is endangering livestock production—a major source of export earnings. Grain import requirements of some 250,000 tons over the next year will severely strain the entire economy.

- In Mozambique, the effects of insurgent activity and the government's economic policies have combined with the drought to reduce food production below subsistence levels. Maputo has obtained commitments for over 300,000 tons of food aid for this year, but will need an additional 220,000 tons until next April's harvest, with about 4 million people requiring food aid.

- Corn and wheat production in Zimbabwe has been sharply reduced by a prolonged drought. Over 2 million people are already fully dependent on government food supply programs, and the number is expected to increase until the harvest in April 1984. Zimbabwe's loss of revenues from agricultural exports will add to the dismal outlook this year for its economy, already beset by slack mineral and manufactures exports.

- Some 3 million people are affected by drought in Ethiopia, primarily in the north. Inadequate transportation facilities and insurgent activity in the hardest hit areas have slowed relief aid.

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Most countries in the drought-affected areas will need to import food to meet consumer demand this year. Paying for commercial imports will be a significant burden for the weaker economies of the region. Moreover, most of the imported food will have to come from outside the continent, thereby adding to transport costs. [redacted] 25X1

As a result of their increasingly precarious financial positions, food deficit nations have turned to the United States and other traditional Western donors for food aid and for assistance in distributing relief. The United States plans to provide Sub-Saharan Africa with $227 million in food aid in fiscal 1983. As the impact of the drought spreads, we believe that African leaders will levy additional aid requests on donors, particularly the United States. Governments may interpret Washington's response as a gauge of our commitment to Africa's needs. [redacted] 25X1

Even if normal weather patterns return, food supply and demand will remain in a delicate balance in much of Sub-Saharan Africa. The growth of food production has slowed during the past decade and has failed to keep pace with the skyrocketing increase in demand stemming from high population growth and rising incomes. We believe that the financial, physical, and human resource problems that have constrained agriculture in most African countries since the early 1960s cannot be redressed significantly in the 1980s:

- African leaders will be reluctant to make politically risky pricing and trade policy reforms necessary to improve incentives to farmers, because such reforms must come at the expense of politically volatile urban consumers.
- Modern agricultural materials and equipment are too costly for most farmers, and budgetary problems will constrain government efforts to bolster the agriculture sector.
- Inadequate transport and storage facilities will hinder the marketing and distribution of both foodstuffs and agricultural materials.
- Continuing migration of young men to urban areas will raise rural wage rates and cut into rural labor supplies.
- The potential for increasing food production by bringing new land into cultivation is large, but preparing these lands will require high levels of investment.

We believe that few African countries have the financial ability and political will necessary to reverse the downward trend in food production over the next decade. In our judgment, Africans will approach the West with more frequent requests for larger volumes of food aid and for financial and technical assistance to revive domestic food production. [redacted] 25X1

[redacted] 25X1

Briefs

Energy

First-Half 1983 Soviet Oil Production

According to the Soviet press, oil production met the USSR's goal of 12.38 million b/d during the first six months of 1983, an increase of slightly more than 1 percent over the same period last year. At least 60 percent of the first-half increase occurred in the major oil region of West Siberia, with most of the remaining production increase coming from Komi and western Kazakhstan, the only major non–West Siberian regions registering significant production gains in recent years. The Soviets probably will continue to devote the bulk of their investment, drilling, and development efforts to these key growth regions in an attempt to compensate for production declines elsewhere. The Soviet oil industry consistently produces more oil in the second half of the year than in the first half. [redacted] 25X1

Soviet Oil Exports to the West Down Slightly

According to preliminary OECD data, the volume of Soviet crude oil and oil products exported to OECD countries in first-quarter 1983 fell about 2 percent, as compared with the corresponding period last year. Deliveries to OECD countries for hard currency were down by more than 4 percent. Crude oil shipments to hard currency countries declined by 13 percent; exports of oil products rose by more than 3 percent. Hard currency earnings from exports of crude oil and oil products probably declined by about 10 percent because of the drop in oil prices. [redacted] 25X1

Soviet exports of more than 1.2 million b/d of oil to all hard currency countries in 1982 earned $14.8 billion, more than 50 percent of Moscow's hard currency receipts from commodity exports. If a crude oil price of $29—about $3 a barrel less than the average 1982 price—continues for the rest of 1983, Soviet hard currency earnings from oil could fall as much as $2 billion for the year, assuming roughly the same volume of oil exports as in 1982. [redacted] 25X1

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Possible Reduction in Italian Need for Soviet Gas

Lower gas demand projections combined with potential gas supplies from other sources may reduce Italian need for additional Soviet gas. [redacted] Italian gas demand projections for 1990 have 25X1 been scaled back from 39 to 40 billion cubic meters (bcm) to 35 to 38 bcm. Gas supplies already contracted for through the end of the decade approximate 34 bcm and include 7 bcm from the USSR, 6 bcm from the Netherlands, 2 bcm from Libya, and 12 bcm from Algeria. Although Italy has not imported Libyan gas since 1981, Rome is under pressure from the Libyans to resume purchases. Domestic production is expected to be 7 bcm. In addition, the Netherlands and Algeria may be willing to discuss additional sales to Italy.

These supplies will give Italy considerable leeway in future negotiations with the Soviet Union for additional gas supplies. Earlier this year, Rome anticipated a need for up to 8 bcm of additional Soviet supplies to meet 1990 gas requirements. 25X1

Nigerian Oil Production Limited

Nigeria has placed a ceiling on the output of all oil producers in order to bring third-quarter production in line with OPEC's quota of 1.3 million barrels per day. The ceilings will limit total production to 1.16 million barrels per day for the remainder of the quarter. The US Embassy estimates output last month was roughly 1.75 million barrels per day. 25X1

Lagos may find it difficult to work within the OPEC framework. Nigeria is facing severe economic problems, and its high-quality crude oil is in demand. Earnings from output at the ceiling level probably will be about $800 million a month, which will not quite cover import costs—even at their current reduced rate. Nigeria is likely to look to increased sales in the fourth quarter, when OPEC probably will raise production quotas for each of its members. 25X1

Improved Outlook for Canadian Oil Sands Development

Tax concessions and royalty deferments by Ottawa and the Alberta government have reinvigorated the development of Alberta's oil sands, which are estimated to contain 1.1 trillion barrels of reserves. Last month, Syncrude Canada announced a $970 million expansion of its synthetic oil plant after Alberta agreed to a $365 million, five-year royalty deferment package. The planned expansion will create 400 jobs and increase production at the plant from 107,000 b/d to 129,000 b/d. Earlier this year, Ottawa's offer of depletion allowances and relief from the Petroleum and Gas Revenue Tax, along with deferred royalties from Alberta, convinced BP Canada to proceed with construction of an oil sands project at Wolf Lake. This undertaking will involve the first commercial use of enhanced recovery techniques—steam injection—to remove crude oil from oil sands and will require drilling 1,200 wells over its 25-year life, at a total cost of $770 million. In addition, a similar tax package is being considered to prompt Esso Resources to begin a scaled-down version of its planned Cold Lake facility, which has been stalled since 1981. 25X1

The federal government's tax incentives are part of a broad package outlined in the April budget to aid recovery in the petroleum industry. Similar concessions are available to other companies planning oil sands development, although Alberta considers each project on an individual basis. The three projects mentioned would increase Canada's heavy oil production by 46,000 b/d; Canada's two existing synthetic oil plants produced 120,000 b/d of heavy oil in 1982. 25X1

Saudi Concerns Over Slack LPG Sales

With oil production now nearing 5 million b/d—almost 1.5 million b/d above March output—Saudi Arabia is having trouble selling the additional supplies of liquefied petroleum gas (LPG) that are becoming available. Early this year Petromin, the Saudi national oil marketing company, was forced to curtail LPG deliveries and, to help ration supplies, raised LPG prices by about $30 to the current $270 per ton. Embassy reporting indicates that the higher prices and a seasonal falloff in LPG demand are causing customers to take advantage of volume phaseout clauses in their contracts, and the rising quantity of LPG in storage is beginning to worry Riyadh. Last year the Saudis instituted a new marketing formula tying LPG prices to crude oil and giving customers the option to reduce purchases if the LPG cost rose above a certain trigger price, currently about $215 per ton. The formula was intended to guarantee customers LPG supplies at reasonable prices, but Saudi inability to meet contract deliveries combined with subsequent price hikes have soured customers. Riyadh's most important clients, the Japanese trading companies and four former Aramco partners, are now refusing to bail Petromin out of its marketing difficulties. 25X1

West German Switch to Unleaded Gasoline

Bonn recently announced a cabinet decision requiring all new automobiles sold in West Germany after 1 January 1986 to use unleaded gasoline. Prompted by environmental concerns, West Germany is the first West European country to switch to unleaded gas. According to Embassy reporting, Austria, Greece, Switzerland, the United Kingdom, and the Benelux and Scandinavian countries support the West German initiative, although they have not announced similar moves. Italy and France—both major auto producers—are opposed to the action, and France has threatened to protest the measure in the European Community as an illegal trade restriction. 25X1

West German oil companies reportedly favor the move and claim they can provide sufficient quantities of unleaded gas, but automobile manufacturers are less enthusiastic. Volkswagen apparently is worried that catalytic converters could increase car prices 10 to 12 percent; Daimler Benz and BMW are concerned that unleaded gas will not have the octane rating that their high-performance vehicles require. Nonetheless, the switch could boost auto exports because certain models currently produced for the European market could be sold in the United States and Japan when unleaded fuels become mandatory. 25X1

Slower Growth in OECD Nuclear Power Generation

Nuclear power generation in the OECD countries increased only 3.3 percent in second-quarter 1983 compared to the same period a year ago—reaching 3.6 million b/d oil equivalent. The greatest increases occurred in Belgium, the United States, France, and the United Kingdom. West Germany and Japan reported declines as a result of increased maintenance and refueling requirements. The slight increase in nuclear power generation comes in the face of stagnant electricity demand. Although its growth will be limited by weak

OECD: Gross Nuclear Electricity Generation *Terawatt-hours*

	1982 2nd Qtr	1983 2nd Qtr	Change
OECD	**184.1**	**190.1**	**6.0**
United States	71.0	73.1	2.1
Japan	28.8	26.7	−2.1
Canada	10.2	12.5	2.3
Western Europe	74.1	77.8	3.7
Belgium	3.5	6.6	3.1
Finland	3.7	3.6	−0.1
France	26.9	29.4	2.5
Italy	1.8	1.6	−0.2
Netherlands	1.1	0.9	−0.2
Spain	1.6	1.8	0.2
Sweden	8.3	8.0	−0.3
Switzerland	3.2	3.2	0.0
United Kingdom	9.2	11.6	2.4
West Germany	15.0	11.1	−3.9

[redacted] 25X1

demand, nuclear-electric power generation is expected to continue to increase its share of total electricity generation. We expect OECD electricity demand to recover with the worldwide economic recovery and nuclear power generation to resume its more rapid growth rate, thereby further increasing its share of total electricity generation. [redacted] 25X1

International Finance

Brazil's IMF Payments Still Not Imminent

Although the IMF this month probably will approve in principle Brazil's recently revised stabilization program, we believe it will delay release of loan disbursements until late October. Brazil's enactment in mid-July of a salary law lowering wage adjustments from 100 percent to 80 percent of inflation, following previously announced new fiscal and monetary restraints, removed the last major disagreement between Brazil and the IMF. As a result, a new Brazilian letter of intent is expected to be given a favorable review by the Fund's Board of Directors within a few weeks. Nevertheless, the IMF has indicated that it intends to hold up $820 million in payments under the program until the Brazilian congress ratifies the salary law, which probably will not come before the last week of October. Furthermore, the IMF wants foreign bank commitments of a new financial package—including some $3.5 billion in additional loans—which also are unlikely to be completed for two months or more. [redacted] 25X1

We believe bankers will continue to provide limited financial support to help Brasilia scrape through its near-term difficulties. With the trade accounts strengthening, Brazilians probably will continue to get substantial preexport financing. Foreign banks probably will also permit Brazil to roll over repayments of short-term bridge loans falling due. Moreover, once the IMF announces its agreement in principle, the banks may release some or all of the $1.1 billion in scheduled medium-term installments that have been withheld since May, when Brazil fell out of compliance with IMF conditions. [redacted] 25X1

Despite these moves, Brazil's payments position will remain precarious over the months ahead. Consequently, the government is intensifying measures to conserve scarce foreign exchange. Last week Brasilia tightened control by requiring that all foreign exchange be channeled through the central bank. For at least a few months, the government will dispense payments to meet national priorities, mainly industrial imports and debt servicing. [redacted] 25X1

Oil Exporters' Requests for Special Access to IMF Funds

The IMF is considering requests by Venezuela, Nigeria, Iraq, and Indonesia for access to low-cost loans from the Fund's Compensatory Financing Facility (CFF). The CFF funds are provided to IMF members experiencing declines in export earnings that are judged to be temporary and largely beyond the control of the government. The requests present a particularly thorny problem to the IMF in determining whether oil price shifts are beyond an OPEC member's control or result primarily from the collusive behavior of the cartel. Moreover, expanded access to CFF funds would entail drawings from the IMF's general resources, thereby contributing to its already serious liquidity problems. [redacted] 25X1

[redacted]

Venezuela, hurt by depressed oil export revenues, is counting on its $1.4 billion CFF request to avoid drawing IMF loans disbursed under programs entailing much more rigorous and politically unpopular conditionality. Nigeria, currently experiencing a severe cash crunch, has vowed to vigorously press its request for $600 million. Iraq, having nearly exhausted its reserves after three years of war and with little prospect for reopening Persian Gulf export facilities is seeking $225 million. We believe Nigeria and Venezuela will become even more adamant in their demands for CFF funds pointing to Indonesia's membership in other producer arrangements to bolster their own cases. [redacted] 25X1

South American Debt Developments

Ecuador and Peru have obtained some relief from their continuing debt problems. According to Ecuadorean Finance Minister Correa, the IMF has finalized the $170 million standby agreement conditionally approved on 1 June and reportedly disbursed $42 million in new funds on 1 August. Although the credit does little to alleviate immediate financial strains, the IMF's actions are likely to help Quito secure promised loans from its private creditors. The US Embassy reports that international bankers have committed 95 percent of the $431 million loan agreed to as part of the financial rescue package. Until these funds are secured, however, Quito will be unable to settle its $200-300 million arrearages and meet current debt servicing payments. [redacted] 25X1

In a separate development, Peruvian Finance Minister Rodriguez Pastor has successfully obtained debt relief through the Paris Club. On 26 July, he renegotiated $1 billion in maturing public debt over eight and a half years with a four-year grace period. This marks the first instance a major South American borrower has obtained government-to-government debt relief during the current financial crisis. Despite these debt renegotiations, some of Peru's private creditors—mainly smaller US institutions—remain reluctant to increase their loan exposure because of worsening economic conditions and rising terrorist activity. A failure to attract new international lending in coming months would heighten Lima's vulnerability to debt servicing disruptions as export earnings are depressed and foreign exchange reserves hover around $500 million—barely two months of imports. [redacted] 25X1

Polish Debt Rescheduling

Poland's Western government creditors agreed in principle last Friday to open rescheduling negotiations with Warsaw. A final decision is due by 15 September. The government representatives agreed to insist that Warsaw cover overdue payments from 1981 before concluding debt relief for 1982. Although the decision is the first major step toward rescheduling, progress is certain to be slow. The first formal negotiations may not be held until mid-October. Poland is $6 billion in arrears to Western governments, and all of its payments capacity is being used to repay Western banks. Western governments also will reject Warsaw's requests for new credits. [redacted] 25X1

Portugal's BIS Transactions

The Bank of Portugal failed last week to persuade the Bank for International Settlements (BIS) to roll over a $400 million gold pledge loan. The BIS had earlier told the Portuguese that it would not extend the maturity date unless Lisbon could develop a plan for financing its current account deficit. With the conditions for an IMF standby loan still under discussion, the BIS decided that Lisbon had not met its terms. According to the Embassy, Lisbon has forfeited its gold deposit but will receive the funds remaining after the BIS sells the gold and deducts the amount of the loan. In the meantime, Portugal has obtained a $300 million short-term loan from the BIS—probably also secured by a gold pledge—that will ease its cash shortage in the near term. We estimate that these transactions leave Lisbon with approximately 19.4 million ounces of unpledged gold, which at current market prices, is worth about $8 billion—equal to over one-half of Portugal's external debt. [redacted] 25X1

Angolan Debt Problems

Angola's inability to pay its commercial debt to the USSR has caused new irritations in bilateral relations. [redacted] 25X1

Oil earnings in Cabinda have declined, and Angola cannot service its overall foreign debt of some $2 billion, which [redacted] includes more than $1 billion owed to the USSR. Moscow generally is taking a hard line on commercial payment by Third World countries, but it probably is reluctant to risk its relationship with Angola by being too tough. Although the Soviets are likely to continue providing military assistance, they probably worry that Luanda's economic problems are leading it to look more to the West for the aid that the USSR is unwilling to provide. [redacted] 25X1

Probable Rise in OECD Interest Rates

The West European and Canadian governments are likely to increase domestic interest rates to strengthen their currencies against the US dollar. Despite foreign exchange market intervention by the US, Japanese, and West German central banks, the dollar hit an all-time high earlier this week against the French franc and the Italian lira while posting a nine-year high against the West German mark. The financial press attributed the dollar's strength to expectations of further increases in US interest rates. Mindful of the effects on economic recovery, foreign governments probably will renew their attacks on US economic policies if interest rates and exchange rates fail to stabilize soon. Nonetheless, most West European governments still believe that further declines in exchange rates would harm their economies more than rising interest rates. For its part, the Bank of Canada is expected to continue its policy of stabilizing the Canadian dollar's exchange rate against the US dollar. [redacted] 25X1

Global and Regional Developments

Canada's Foreign Investment Act Found To Violate GATT

A GATT panel has upheld, in part, a US complaint against Canada's Foreign Investment Review Act (FIRA). In a 22 July report, the panel found FIRA's requirement that foreign companies investing in Canada purchase their supplies domestically, a violation of Article III of the international trade agreement. The panel rejected another US complaint that FIRA's export performance requirements are trade disruptive. Though the GATT can take no punitive action, failure to amend FIRA would leave Canada open to retaliation by the United States. Barring a bilateral settlement, the panel's recommendation will be presented to the GATT Commission on 3 October; panel recommendations usually are accepted by the GATT. 25X1

Ottawa argues that it has substantially eased its investment review process since 1981 and has made sufficient adjustments to satisfy GATT criticisms since the US protest was lodged last November. The changes were mainly administrative, however, and a return to previous practices could be easily accomplished. Minister of Trade Lumley downplayed the GATT action and reconfirmed Ottawa's commitment to the investment review process, saying that "FIRA is still a viable entity." As a result, Ottawa is unlikely to make further changes to FIRA and will buttress its case by pointing to the US delay in amending the DISC after GATT ruled it was disruptive in 1976. 25X1

Chinese-US Textile Accord Concluded

Initialing of an agreement by Chinese and US negotiators in Geneva ends a yearlong effort to renew the textile trade pact that expired last December. The agreement permits moderate growth in Chinese exports of textile products to the United States, which amounted to about $800 million last year. The five-year agreement places strict controls on 33 categories and provides a mechanism to negotiate further controls if Chinese exports threaten to disrupt US markets. 25X1

Resolution of the textile issue removes a political obstacle to Chinese purchases of US grain, which Beijing has prohibited since Washington imposed restraints on textile trade in January. Preliminary details of the agreement suggest a moderation in the Chinese position, probably in part because of improved Sino-US relations but also to protect the earnings derived from textile exports. Beijing appears to have been influenced by the US restraints—which started to cut into sales this summer—and the reluctance of US retailers to place Christmas orders that might later be embargoed. China also has been unable to sell enough textile products to other buyers to offset the reduced US purchases. 25X1

National Developments

Developed Countries

Possible Israeli Economic Policy Changes

Finance Minister Aridor will probably propose budget cuts of roughly 5 percent in real terms to the Cabinet, perhaps as early as late August or early September, according to US Embassy contacts in the Finance Ministry. We agree with the US Embassy's judgment that Aridor hopes to use growing public concern over the economy to pressure his Cabinet colleagues to go along with his proposal; recent polls indicate declining support for Aridor's current economic policies. Ministers with their own constituencies to protect, however, are likely to oppose such cuts. Even if spending reductions are approved by the Cabinet, past history indicates they may not be implemented; in FY 1982 that ended on 31 March, civilian expenditures rose 2.6 percent in real terms based on Finance Ministry estimates despite "cuts" approved last August to help finance the invasion of Lebanon. [redacted] 25X1

Finance Ministry and Bank of Israel officials have indicated to a US Embassy officer that the government is easing up on its anti-inflation policy of slowing the depreciation rate of the shekel. In recent months, the depreciation rate has exceeded the rate recorded earlier this year. The shekel's depreciation rate actually outpaced price hikes in May and June, but that may be due in part to miscalculations because the inflation rate in those months was lower than anticipated. An assistant to Aridor told a US Embassy officer that, while Aridor does not currently favor a large-scale devaluation because it would trigger even higher inflation, at least in the short run, a significant devalution as part of a major effort to deal with Israel's economic problems could not be ruled out. [redacted] 25X1

MITI Proposes Oil Tax Hike

A leading Japanese economic daily reported recently that Japan's Ministry of International Trade and Industry wants to hike the current tariff on petroleum imports to make up for a predicted shortfall of up to $500 million in revenues for the fiscal year that ends in March 1984. Oil tax revenues are earmarked for a special fund in the national budget and are used for oil stockpiling, oil exploration and development, and alternative energy research and development. The revenue shortfall is likely because of reductions in crude oil prices and in domestic demand for oil resulting from a prolonged recession in Japan. MITI's proposal, which has yet to be coordinated with other ministries, will encounter considerable opposition from the oil industry, which will be concerned about further depressing oil demand, and from business leaders who have been campaigning actively for general tax cuts to stimulate the economy. The proposal is unlikely to receive more than lukewarm support from the Ministry of Finance because increases in oil tax revenues will not benefit the general treasury. The issue will be decided during wrangling later this month involving MITI, the Finance Ministry, the ruling Liberal Democratic Party, and private interest groups. [redacted] 25X1

Less Developed Countries

Syria Implements New Austerity Measures

Damascus has embarked on another of its periodic attempts to conserve scarce foreign exchange. Government industries can obtain letters of credit only for essential imports such as grain, oil, medicine, and military supplies; exit taxes and passport fees have been raised by 100 to 240 percent. Bank officials say that the bulk of official export revenues—down about 20 percent over the past 18 months—will now be used to pay off overdrafts at Western banks, which some observers estimate at $300-400 million. The government's moves will be a further blow to Syria's inefficient public industries but probably have little impact on private-sector importers, who the government hopes will draw down their overseas bank accounts to continue bringing in a wide range of consumer and commercial goods. 25X1

Thailand Reduces Subsidies to State Enterprises

Bangkok will slash subsidies to state-run corporations by 75 percent in its fiscal 1984 budget, which takes effect on 1 October. Over $500 million in subsidies were cut from the budgets of four public corporations—the Metropolitan and Provincial Waterworks, the State Railway of Thailand, and the Provincial Electric Authority. The reductions are part of a general austerity package Thai officials are implementing to control the large budget deficit, projected at $1.4 billion or 3.5 percent of GDP for next year. Although some state enterprises are likely to cushion the impact of the cuts by increasing foreign borrowing, other agencies have begun to implement price hikes and wage and salary reductions. Public utility prices—especially transportation fares and water rates—are volatile issues in Thailand, and the opposition party is likely to exploit any utility price hikes to embarrass the government. 25X1

Burmese Trade Balance Deteriorates

According to recently released official statistics, Burma's merchandise trade deficit totaled $440 million for the 1982/83 fiscal year that ended in March—a 30-percent increase over the previous fiscal year. Foreign exchange reserves dropped to a near-record low, equal to less than one month's imports. The poor performance was caused by depressed world prices for Burma's commodity exports, primarily rice, coupled with rising imports and debt service payments. Rangoon hopes to reduce the deficit by 40 percent over the next year to about $260 million by increasing rice exports to 1 million tons and reducing imports through foreign exchange restrictions. Rice industry analysts, however, believe the rice export goal is unrealistic, and we expect Rangoon to continue to look to Japan for economic assistance, which totals about $225 million annually. 25X1

Communist

Soviet Food Supplies Improve

Shortages in the USSR of many quality foods have eased this year, but not enough to permit relaxing of the informal rationing system for selected food items that has spread widely since 1980. US Embassy surveys of private farm markets and state stores have shown increased supplies of most foodstuffs, as compared with last year. Meat production, for example, has risen substantially. Reports from emigres indicate some of the regions that have experienced substantial food shortages since 1980 have rebounded somewhat. If meat production reaches the estimated level of 16.2 million tons and imports approach the high level of 1982, per capita consumption would reach a record high. The record harvests of fruit and vegetable crops in 1982 have kept supplies plentiful. Milk production also has increased, and most of the lost per capita consumption of the last two years may be regained. 25X1

During the past three years, the leadership has increased imports to maintain per capita consumption of some products. Import data for this year suggest that Moscow intends to sustain but not increase the import levels of the recent past. Food-related worker unrest has declined since 1981. This is largely the result of increased special food distribution to industrial installations and other worksites. The improved food supply in 1983 should ease the frustration of those without this special access. It also will allow the leadership to postpone decisions on hikes in the costs of food, which would be a departure from a long-standing commitment to stable food prices. Earlier this year the regime had indicated that it was considering price increases. 25X1

USSR Revises Agricultural Incentives

A new Soviet decree has revised the incentives for organizations supplying equipment, fertilizer, and other supplies and services to farms. Its primary purpose is to tie rewards for these organizations to growth in output and productivity on the farms they serve. The decree also imposes heavier penalties on equipment suppliers for delivering low-quality or unreliable products. Judicial bodies are to study problems in the farm service sector and to provide proposals within three months that will increase the effectiveness and accountability of the farm service, food-processing, and distribution sectors. 25X1

The leadership apparently recognizes that the need to alleviate bottlenecks in the agricultural service and distribution sectors is crucial to achieving the goals of the Food Program. The program is being hindered by the failure of the service organizations to respond adequately to the needs of farms. If the decree can tie the interests of service organizations to the success of the farms, a major obstacle to agricultural effectiveness could be substantially reduced. 25X1

Yugoslav Price Freeze Lifted

Belgrade last week lifted an ineffective year-old price freeze. Although monetary policy has been restrictive, past inflationary pressures, the depreciating dinar, and the expanding use of unsecured interenterprise trade credits have pushed inflation above the 32-percent rate recorded last year. In the first half of this year the cost of living rose at an annual rate of 36 percent, and we expect the rate for the full year will be about 40 percent. Prices rose despite the freeze because producers found loopholes in the regulations and because the Federal Executive Council raised the ceilings on major products to meet an IMF requirement to restructure prices. 25X1

The price freeze has been replaced by a system of regulations that will leave only 7 percent of industrial goods—mainly crude oil and derivatives, processed chemical products, and natural gas—under price ceilings. Most other price changes will require official approval, however. 25X1

Sub-Saharan Africa: Impact of Drought [redacted]

25X1

Sub-Saharan Africa is suffering from what has been described as the worst drought in the century. Crops have been devastated, and for many in the region food production will not meet requirements. More serious still is the threat that the drought will continue into next year. Should that occur, only stepped-up food aid could avert mass starvation. This article, which is largely drawn from US Embassy cables, provides examples of the problems faced in Lesotho and Zambia, which are representative of those of the region as a whole.

Lesotho

Lesotho has been particularly hard hit by the 1982/83 drought. Rainfall for the principal 1982/83 summer crop was far below normal, with large areas of the country 20 centimeters (roughly 8 inches) below average. During the critical crop-growing periods of December, January, and February, Lesotho received only 40 percent of its normal rainfall. The production of maize, wheat, and sorghum is estimated to be 75 percent below normal, and vegetable crops are nearly a total loss. Livestock is reported to be in fair-to-poor condition. Grazing lands have deteriorated, and as temperatures have grown cooler during the winter months the grass has entered a dormant period. Poor grazing, coupled with a scarcity of feed, is placing severe strains on the livestock sector, and there are already reports of livestock deaths.

Currently it is estimated that there is an 80-percent loss of the principal crop, maize, and a 70-percent loss of the wheat and sorghum crops. Compared with the 200,000 tons of maize, wheat, and sorghum that are normally produced, only 50,000 tons are expected this year.

In addition to the 200,000 tons of cereals normally produced domestically, another 100,000 tons are imported in an average year. This year, because of the drought, Lesotho will have to import an additional 150,000 tons to fully meet consumption needs: 100,000 tons of maize and 50,000 tons of wheat. Such an increase in cereal imports places a severe strain on the entire economy.

Even if Lesotho could afford to import the estimated 150,000 tons of lost cereals, severe food supply problems in remote rural areas would still occur because of logistic problems and the high cost of moving the imported food to remote mountain areas.

Government Response. Earlier in the year the government of Lesotho declared a state of food emergency, appealed to donors for assistance, and took the following measures:
- Stopped (on 1 April) imports of cattle from South Africa in order to reduce the deterioration of the drought-affected rangelands.
- Organized cattle auctions to assist owners who wish to sell off their cattle before the animals die because of poor grazing and lack of feed.
- Provided loans to farmers for spring planting, food storage warehouse construction, and well drilling for drinking water.
- Allocated funds for the transport of relief food.

Despite urging and assistance from the United States Agency for International Development, the government has been slow to coordinate the donors and organize the food relief distribution program. Recently, however, the Cabinet has appointed a 14-member committee for distribution of food aid for drought relief.

Zambia

The Zambian Government's efforts to increase food production to at least self-sufficiency levels were thwarted again in 1983 by inadequate and irregular rainfall, especially in the main agricultural belt of southern and central provinces. Although production of maize, Zambia's principal crop, will be up slightly from last year's harvest, Zambia has again been forced to use scarce foreign exchange to finance food imports.

Zambia, with considerable help from international donors, has been able to obtain sufficient food from within the region to meet most of its essential import needs and seems to have again squeaked through its lean season. However, there are no surplus supplies, and continuation of the drought would sharply worsen food problems next year. Despite a clear lowering of living standards caused by the drought, the Zambian populace has thus far shown little evidence of major unrest.

In Zambia, as elsewhere in the region, drought conditions have affected most agricultural crops. The rainy season (October to March) began with above normal rainfall in most agricultural areas. This, coupled with favorable producer prices and adequate supplies of fertilizer, favored increased plantings and early growth. Precipitation in December and January, however, was irregular and sharply below normal in the main agricultural belt.

The impact of the drought is best measured in the production of maize, which is by far Zambia's leading food and cash crop, accounting for about 90 percent of the country's marketed grain. Despite an estimated 15-percent increase in planted acreage over the 1981/82 maize crop (which itself was estimated 10 to 20 percent above the previous year), marketed maize production this year is presently estimated at about 590,000 tons. While this represents about a 16-percent increase over last year's maize production, it still does not approach self-sufficiency levels, which are estimated at about 720,000 to 790,000 tons, or the 695,000 tons produced in 1980-81, which was the last non-drought year. This leaves a shortfall of 130,000 to 200,000 tons which must be imported to maintain normal consumption levels.

The maize supply situation in Zambia may also be aggravated this year by an increase in the smuggling of Zambian maize meal from the copperbelt into Shaba province in Zaire, where there are severe shortages. Zaireans will reportedly pay Zambians up to two to three times more than the going price in Zambia. Shaba normally imports 100,000 to 150,000 tons of maize from South Africa or Zimbabwe, but both of those countries are also experiencing drought-related shortages.

Zambia has thus far been able to cover a substantial portion of its maize deficit by commercial imports from within the region and by international donor support. Although Zimbabwe has stopped commercial maize exports and South Africa has offered to sell only US yellow maize to Zambia, Zambia was able to purchase 60,000 tons two months ago from Malawi. International donors have been forthcoming; the US provided over 31,000 tons under PL 480 Title I aid, the EC is now delivering 15,000 tons, and the Dutch will provide over 28,000 tons.

Zambia's present maize consumption is being regulated by monthly rationing and border controls. This rationing should provide most areas enough maize to avert serious shortages and outright starvation. At present Zambia has only a one- to two-month supply in stock, however, and the country will definitely need additional maize imports over and above donor commitments before the next harvest in early to mid-1984.

Zambia's production of other major crops—cotton, tobacco, sorghum, and groundnuts—is similarly expected to experience shortfalls of about 15 to 20 percent below nondrought-year production. Wheat and rice production may be less affected by the drought since these two crops are produced mainly in irrigated areas.

The impact of the drought on meat consumption will probably not be felt until next year. Beef, pork, and poultry are presently in surplus, in part because of the lifting of last year's foot-and-mouth quarantine and because farmers are increasing distress slaughtering.

Two consecutive years of drought have clearly reduced living standards of the average Zambian, who spends 70 percent or more of his income on food. The impact of the drought on food supplies has also been compounded by IMF-induced reductions in government food subsidies. Taken together, these factors have caused food prices to rise by well over 20 percent within the past 12 months.

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Southern Africa: Food Trade

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The severe drought that has afflicted much of southern Africa over the past two years has altered the traditional roles of South Africa and, to a lesser extent, Zimbabwe as regional food suppliers. Both countries, however, have themselves been affected seriously by drought in the past year, resulting in increased regional dependence on international food relief—especially from the United States—and in some cases on commercial purchases of food grains in the international market. 25X1

Southern African Corn Production, 1980

	Production (*thousand tons*)	Share (*percent*)
Total	**14,559**	**100.0**
Angola	320	2.2
Botswana	12	0.1
Lesotho	112	0.8
Malawi	1,100	7.5
Mozambique	250	1.7
Namibia	40	0.3
South Africa	10,230	70.2
Swaziland	95	0.7
Zambia	800	5.5
Zimbabwe [a]	1,600	11.0

[a] Includes peasant as well as commercial production.

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The South African Role

Traditional Trade Patterns. Despite the secrecy surrounding South Africa's food trade with black Africa, US Embassy sources indicate that over 40 African countries have economic and trade ties with Pretoria.[1] Agriculture accounts for a major portion of this trade. A significant part of this trade probably is conducted through third countries. For example, Angola probably imports some South African goods by way of Zambia. Still, trade probably is restrained more by a lack of foreign exchange than by political considerations among black African customers. 25X1

We believe that the willingness of black African governments to import food from South Africa stems primarily from relatively lower shipping costs. The bulk of South African food shipments are delivered by rail; many of South Africa's neighbors are landlocked, and such ports and other transport facilities as do exist are often so inadequate and poorly maintained that food shipments from elsewhere would have to pass through South Africa anyway. Moreover, South Africa's corn exports—unlike those from the United States—include a large proportion of white corn, which is strongly preferred over yellow corn for human consumption in the region. 25X1

Recent Corn Policy and Production Levels. South Africa's high levels of corn production have been the result of government agricultural policies that combine price incentives and subsidies to encourage production. These policies reflect the political importance of conservative corn growers to the ruling National Party, and also have been part of a 25X1

[1] Even though South Africa is an important regional food supplier, most of its neighbors neither maintain diplomatic relations with Pretoria nor publicize trade. In turn, although Pretoria publishes aggregate trade figures for all of Africa, it does not identify specific partner countries in order to prevent their political embarrassment and to avoid jeopardizing trade. Exceptions are Botswana, Lesotho, Swaziland—with which South Africa is linked in a formal customs union—and Zimbabwe, which has a preferential trade agreement with South Africa.

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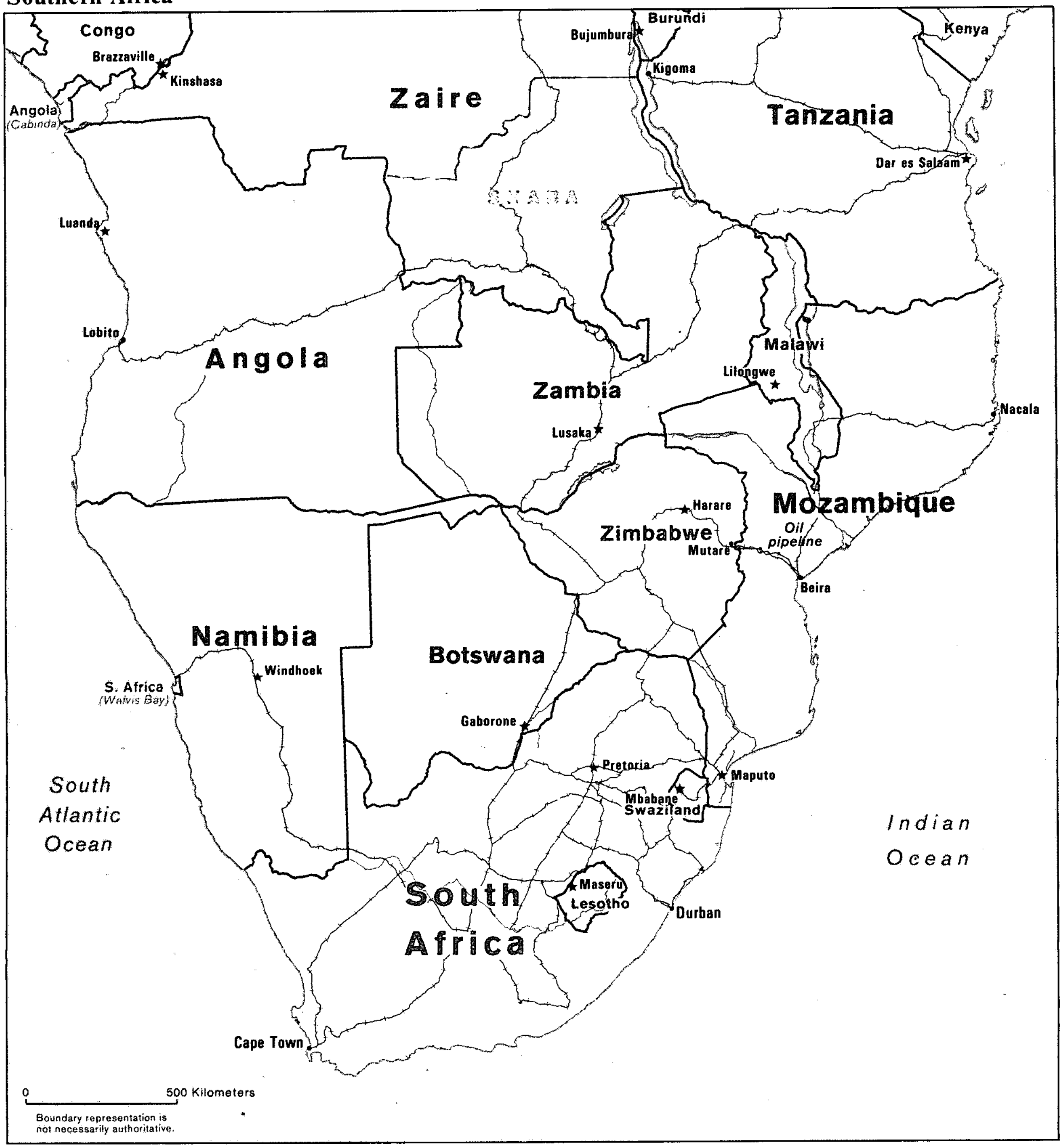
Southern Africa



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deliberate attempt to sustain, for security purposes, a white presence in economically marginal farming areas bordered by South Africa's black neighbors.

Until recently, South African output of corn had been rising, reaching 10.2 million tons in 1980 and 14.6 million tons in 1981. Mild and localized drought reduced production in 1982 to about 8.3 million tons. Because domestic consumption has averaged only about 7 million tons per year, large surpluses have been available for export.

Export Objectives. Pretoria has pursued foreign grain sales aggressively. Corn is exported at a price below that charged to domestic consumers. South Africa's customers have included Japan and Taiwan as well as countries in the Middle East, the EC, and black Africa. About 4.3 million tons were exported in 1982.

We believe that South Africa has pursued food sales in the southern African region for several reasons: to rid itself of surplus production, to pave the way for trade in other types of commodities, and to open the door to broader political ties. South African officials have pointed out the importance of the nation's role as a food supplier to emphasize regional economic dependence on South Africa and hint at food as a potential weapon. In early 1981, a former South African Minister of Agriculture commented to the press, "With rising populations all around us, more and more black states will depend to some extent on this country for basic foods. It is strongly in our interests that we should be able to meet the demand." Nonetheless, we have no evidence that South Africa has used the threat of withholding food as a foreign policy weapon.

Zimbabwe as a Food Supplier

About 80 percent of Zimbabwe's marketed corn is produced by whites, who control the modern agricultural sector. According to official Zimbabwean statistics, the volume of corn sold through the government marketing agency—usually a reliable indicator of overall production—had fallen steadily in the five years preceding independence in 1980. Output fell below domestic consumption and required imports from South Africa to cover the shortfall. 25X1 25X1

Beginning in 1980, however, production rose sharply. In response to favorable weather and significant price incentives from the new government, the marketed harvest reached a record high of 2.1 million tons in 1981, compared to about 820,000 tons in 1980. Despite a mild and localized drought in 1982, marketed production totaled 1.4 million tons. Growing production has enabled Zimbabwe to sell corn to 12 black African countries, with substantial amounts going to Zambia and Zaire. Export sales totaled about 250,000 tons in 1981 and 350,000 tons in 1982, according to Zimbabwean statistics, while a domestic reserve of about 700,000 tons was maintained. 25X1 25X1 25X1

Zimbabwe's emergence as a food exporter represents potential competition for South Africa. Moreover, it is a politically more palatable supplier to other black states in the region, who are plagued by chronic food shortages and, in most cases, declining production. In addition to Zimbabwean commercial sales in the region, Prime Minister Mugabe donated 25,000 tons each to Mozambique and Tanzania. Zimbabwe has also participated twice in US tripartite food aid agreements, sending corn to Zambia in return for wheat from the United States, and has participated in such an agreement with Australia last year, receiving wheat in exchange for shipping corn to Tanzania. 25X1

Impact of the Current Drought

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The drought, which began in 1981 in parts of southern Africa, has caused a major reversal in the agricultural fortunes of South Africa and Zimbabwe and has contributed to the scramble in the region to find alternative suppliers or to seek international emergency relief:

- Estimated marketed production of corn in Zimbabwe has dropped to 700,000 tons for this year, and the government has acknowledged that reserve stocks will be totally exhausted by the end of March 1984, when the next harvest begins. Outputs of peanuts, wheat, and sorghum are expected to be down by 50 to 70 percent from last year. Harare is already providing partial food aid to over 2 million citizens from its own resources and expects the number to reach 3 million by next year. Substantial imports of edible oils and wheat are required, and total drought relief costs will exceed $100 million, according to the US Embassy.

- According to press reports earlier this year, Zambia had been counting on Zimbabwe to help meet a shortfall of up to 200,000 tons of corn this year. Zimbabwe, however, has already suspended export sales.

- South African corn production is estimated at 4.4 million tons this year, forcing the first corn imports in 20 years. Wheat—a South African winter crop—has also been hit hard and imports could exceed 325,000 tons this year [redacted] Purchases of up to 2 million tons of imported corn are projected, and all of the over 1 million tons of current reserves are expected to be exhausted.

- According to press reports, Pretoria has canceled its contracts for corn and wheat deliveries to international markets outside Africa, and it has suspended sales to traditional customers such as Zambia and Zaire. South Africa is continuing to supply Botswana, Lesotho, and Swaziland, all of which it treats as a part of its domestic market for corn. [redacted]

Near-Term Prospects

The resumption of adequate rainfall is the single most important factor for recovery of food production. The vast majority of crops in the region are rain fed, and even crops that are more dependent on irrigation—such as wheat—are hampered by low ground water levels. [redacted]

Failure of spring rains beginning in October/November would bring on an even more catastrophic food situation. Even if adequate rains occur, other factors will affect the extent of recovery in food production and export capacity by Zimbabwe:

- Zimbabwe's large commercial farms are capable of a rapid recovery, but will require an injection of funds to alleviate a shortage of agricultural credit.

- Other potential obstacles to recovery in Zimbabwe are shortages of foreign exchange to purchase such inputs as fertilizer and machinery and the unpredictability of fuel supplies because the fuel pipeline through Mozambique is vulnerable to disruptions by insurgents.

Should these obstacles be overcome, exceptionally favorable weather probably would allow Zimbabwe to meet domestic demand and rebuild reserves out of the next harvest and perhaps to resume some exports. [redacted]

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Commercial farmers in South Africa probably are more resilient and able to take advantage of improved weather than are those in Zimbabwe. Even so, a recovery of agricultural production and export capacity there faces some of the same obstacles:

- South African farmers face a daunting debt burden, and many have gone out of business.

- Drought has reduced surface and ground water levels so severely that irrigation capacity may take a season or more to recover. The press reports that, because of drought, there is a shortage of seed. [redacted]

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Exportable surpluses in both Zimbabwe and South Africa are vulnerable to other pressures as well. Population is rising rapidly in both countries; this, together with an increase in urban black incomes,

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has led to rising demand for food. Even South Africa has barely been able to expand food production to keep pace with population growth. Per capita food production increased by only 2 percent for the whole of the 1970s, according to the FAO. [redacted] 25X1

[redacted] 25X1

1983 Soviet Crop Prospects: Best in Five Years [redacted] 25X1

Barring a major deterioration in weather conditions, it now appears that the USSR is headed for a grain crop of some 210 million tons in 1983, the fourth largest ever and the best performance since the 1978 record of 237 million tons. Moscow's target of 238 million tons, however, is well beyond reach. We also expect that major nongrain crops—sunflowers, sugar beets, potatoes, vegetables, and cotton—will show increases over 1982 production and exceed the average of recent years. While a grain crop of 210 million tons would put the USSR within 15-20 million tons of the amount of grain necessary to meet domestic requirements, we believe that Soviet grain imports during the marketing year that began on 1 July will be in the 25- to 30-million-ton range; this would allow the Soviets to rebuild stocks—drawn down substantially by poor harvests over the past four years—or to bolster the important livestock sector. [redacted]

Recent Weather and Crop Conditions

Following four poor grain crops in a row, the USSR finally appears headed for a good harvest in 1983. Indeed, as of late July, crop prospects throughout most of the Soviet Union are favorable. Alternating periods of rainfall and sunshine have promoted plant development and maintained soil moisture reserves at adequate levels in most regions. Based on our analysis of current weather patterns, these conditions will continue through mid-August. [redacted] 25X1 grain yields may reach record levels in some areas. With few exceptions, Western agricultural and defense attaches have reported that crops are in generally good condition in those areas where they have traveled. In addition, production of chemical fertilizers during January-May 1983 exceeded plan and was up 10 percent over the corresponding period last year, according to official Soviet statistics. Given adequate moisture, properly applied fertilizer is the single most important factor in raising Soviet crop yields. [redacted] 25X1

There have been some problems, however. From late May through early June, the southern Ukraine, the lower Volga Valley, and the northern North Caucasus were hit intermittently with hot, dry wind—referred to by the Soviets as a *sukhovey*—reducing potential yields of both winter and spring grains. By the time the *sukhovey* conditions broke on 4 June, [redacted] 25X1 25X1 crop losses had amounted to about 8 million tons. [redacted] 25X1

A shortfall in the area sown to grain has also lowered this year's potential crop size, in our judgment, by some 2 million tons. According to preliminary Soviet statistics on midyear plan fulfillment, plantings this year totaled 122.5 million hectares, below the 124-million-hectare plan and the smallest since 1972. This shortfall is partly the result of weather problems in Siberia at the end of the planting season, but it also reflects a continuing Soviet effort to expand the amount of arable land put into fallow. Although fallowing sacrifices production in the year when the land is idled, it usually results in higher, more stable output in subsequent years as long as the fallowed acreage is maintained in the crop rotation schedule. [redacted] 25X1

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Outlook for the 1983 Grain Crop

With normal weather for the rest of the season, we believe that the 1983 Soviet grain crop will come in at about 210 million tons, only 10 million tons below our May forecast. This reduction reflects equal losses of both winter and spring grains. As a result of the *sukhovey*, we now expect winter grain

USSR: Grain Production [a]

Million tons

	1976-80 Average	1979	1980	1981 [b]	1982 [c]	1983 [d]
Grain production	**205.0**	**179.2**	**189.1**	**158.0**	**165.0**	**210.0**
By type						
Wheat	99.7	90.2	98.2	81.0	83.0	87.5
Coarse [e]	95.1	81.4	80.7	68.0	73.0	108.6
Other [f]	10.2	7.6	10.2	9.0	9.0	13.9
By republic						
RSFSR	113.9	91.8	105.1	80.0	90.0	118.0
Ukraine	43.1	34.0	38.1	36.0	39.0	43.0
Kazakhstan	27.5	34.5	27.5	24.0	18.0	27.0
Other	20.5	18.9	18.4	18.0	18.0	22.0

[a] Measured in bunker weight.
[b] Grain production in 1981 was unofficially reported at 158 million tons. Grain figures by type and by republic represent our estimates.
[c] The 165-million-ton figure should be considered our best estimate of last year's Soviet grain harvest, but one that is subject to error. The maximum range of error in our grain crop estimate over the past four years has been ±8 percent, implying a crop in the range of 152-178 million tons. The US Department of Agriculture currently estimates last year's crop at 180 million tons.
[d] Estimated.
[e] Coarse grains include barley, rye, oats, corn, and millet.
[f] Other grains include rice, pulses, and buckwheat.

[redacted] 25X1

output to be no greater than 55 million tons, below the estimated 60-million-ton average of recent years. Spring grain prospects, on the other hand, are still quite good despite the shortfall in sown area in the New Lands and minor crop losses stemming from the hot, dry weather in the south. We judge crop conditions to be generally good to excellent in the areas where production has traditionally been highly variable, especially the upper Volga Valley, the Urals, and northern Kazakhstan. We therefore believe a near-record spring grain harvest of some 155 million tons is likely. [redacted] 25X1

With excellent conditions for the rest of the year, a crop perhaps as high as 215 million tons could result. On the other hand, a 210-million-ton harvest is by no means assured. Although not a problem at the present time, excessive rainfall during the rest of the harvest campaign—now approaching the halfway point—could seriously hamper combining operations and lead to sizable losses in both grain quantity and quality. Moreover, a bout of hot, dry weather in the spring grain regions east of the Ural Mountains during the second half of August—as grain plants are ripening—would probably cause kernel shrinkage, thereby lowering potential yields. [redacted] 25X1

Grain Requirements

Even with a crop of 210 million tons, the USSR would still be 15-20 million tons short of the amount of grain we believe necessary to maintain current levels of seed, food, and industrial use, as well as to achieve planned output targets for meat, milk, and eggs.[1] This estimate assumes that the mix of feed does not change. To the extent that the share of grain included in livestock rations declines—a shift noted late in 1982 as record quantities of forage crops were harvested—this shortfall could be reduced, perhaps by as much as 5 million tons.

Because Moscow has already lined up imports of at least 10 million tons of grain for the marketing year that began on 1 July, a 210-million-ton crop would thus require at most an additional 10 million tons of foreign grain to cover domestic needs. Owing to ample world supplies of cheap grain and its comfortable hard currency position, however, we believe that Moscow will be inclined to import as much as 25-30 million tons of grain during the marketing year that began on 1 July. Under these conditions, some of the imports could either go into stocks—drawn down substantially by poor harvests over the past four years—or be used to bolster the livestock sector further.

Livestock Sector Improves

Midway through 1983, the outlook for the livestock sector is noticeably better than last year. Meat production during January-May on state and collective farms—roughly two-thirds of total meat output—was almost 7 percent above the comparable period last year and 6 percent above the 1978 level when total meat production peaked at 15.5 million tons. This improvement is a reflection of the record numbers of livestock on hand following an unusually mild winter and earlier-than-normal access to spring pasture. More important, the present herd size has set the stage for substantial growth in total meat production after four years of stagnation at about 15.2 million tons. Indeed, output could reach a new record of about 16 million tons this year if feed supplies remain sufficient, grain imports reach 20 million tons, and the grain crop totals 210 million tons. Although slightly below plan, this would be 5 percent above the 1982 showing. Even at this production level, however, 400,000 tons of meat would have to be imported in order to maintain per capita consumption at the 1982 level. Imports of this magnitude would be roughly half of last year's total.

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Outlook for the Nongrain Crops

With normal weather for the rest of the season, we expect:

- A sunflower crop of 5.5-6.0 million tons.
- Sugar beet production to be in the 80- to 85-million-ton range.
- Output of vegetables to reach 28-30 million tons.
- An 80- to 85-million-ton potato crop.
- A cotton harvest of about 9.5-10 million tons.

If these forecasts hold, output of sunflowers, sugar beets, and potatoes would be up for the second straight year, vegetable production would match last year's record crop, and the harvest of cotton would return to a near-record level.

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Factors Favoring Major Nongrain Crop Production

The early onset of spring and favorable weather to date are the primary factors favoring increased production of nongrain crops this year. Sowing was completed well within the optimal time, decreasing the likelihood that harvesting will be disrupted by winter weather. For example, cotton production last year was reduced because of cold, wet conditions at harvest, and many sugar beets and potatoes were left frozen in the ground. Crop development this year has been aided by generally good growing conditions since planting. The late May/early June

[1] The USSR records grain production in bunker-weight terms—that is, as the grain comes from the field before cleaning and drying. Our production estimate is also in bunker weight. Our research has shown that the bunker-weight measure must be reduced by an average of 11 percent to be comparable to the standard-weight measure. The discount varies according to moisture conditions prior to and during harvest, and to crop size, and thus can become either larger or smaller than the 11-percent average as the season advances. Our preliminary estimate indicates a standard-weight grain crop of roughly 190 million tons (given a bunker-weight crop of 210 million tons) and consumption needs of 205-210 million tons.

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USSR: Production of Nongrain Crops *Million tons*

	1978-82 Average	1981	1982	1983 [a]
Sunflowers	5.0	4.6	5.3	5.5-6.0
Sugar beets	76.5	60.6	71.0	80.0-85.0
Vegetables	27.4	25.6	29.0	28.0-30.0
Potatoes	78.8	72.0	78.0	80.0-85.0
Cotton	9.3	9.6	9.3	9.5-10.0

[a] Estimated.

[redacted] 25X1

sukhovey conditions in the southern European USSR, a principal sunflower region, had a minimal effect on recently germinated sunflowers. [redacted] 25X1

The increased availability of chemical fertilizer this year has also boosted prospects for nongrain crops. Plans for the delivery of chemical fertilizer to agriculture call for a 13.4-percent increase over 1982 deliveries. The 1983 plan also calls for a 7-percent increase in the availability of chemical plant protectants. According to official Soviet statistics, production of chemical fertilizer and chemical plant protectants during January-May 1983 was up 10 and 4 percent, respectively, over the corresponding period last year. [redacted] 25X1

[redacted] 25X1

Long-Term Grain Agreements: Leverage and Vulnerabilities in Coming Renegotiations

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Long-term grain agreements (LTAs) account for a small share of global grain trade, but they are instrumental in East-West grain trade. Last year about 60 percent of Soviet and 85 percent of Chinese grain imports were covered by LTAs. The new US-USSR agreement announced last week is likely to mark the end of major new grain commitments until late 1984, when nearly all the LTAs now in effect will start coming up for renewal. If the grain glut continues, as we expect, competition among the major non-US exporters will intensify. This means that importing countries should be able to realize advantageous terms during LTA renewal negotiations.

Background

Long-term grain agreements became a major feature of world grain trade in the early 1970s. Spurred by grain shortfalls in the USSR and China, buyer and seller alike turned to LTAs as a way of reducing uncertainty. In all, grain traded under LTAs increased from only 2.5 million tons in MY 1974 to 16.5 million tons by MY 1980.[1]

A second surge in the use of LTAs began about 1980 amidst decreasing import demand and mounting surpluses. By MY 1982, annual grain trade covered under LTAs had reached 33 million tons, with the Soviet Union accounting for nearly 50 percent of the total. The US partial embargo on grain sales to the USSR allowed the other major exporters to scramble to do business with the Soviets. Since MY 1980, the USSR has negotiated agreements with Canada, Argentina, Brazil, Thailand, Hungary, and Romania for a total of

[1] 1 July to 30 June, ending in the year designated.

What Are LTAs?

Long-term grain agreements (LTAs) are promises between importers and exporters to buy and sell fixed quantities of grain at regular intervals. LTAs are usually negotiated and signed on a government-to-government basis but have no force of law in international courts. They are in essence gentlemen's agreements. Where grain supplies are controlled by quasi-governmental organs such as grain boards, these bodies are parties to the agreement. In a few cases, such as the US grain accords with Taiwan and Norway, importing governments have dealt directly with private firms.

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Once an LTA is in place, separate sales contracts are then negotiated by the importing country and private grain trading firms or grain boards, specifying price, types and grades of grain, quantities, point of origin, delivery schedules, and method of payment. The agreement itself may specify many of these particulars, with the exception of price. No two LTAs are identical because the specifics are drawn up to achieve a variety of economic, as well as political, ends.

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Some countries prefer to sign multiyear protocols or memorandums of understanding. These arrangements often include many of the terms covered under LTAs; however, they do not bind either party to minimum commitment levels. France has chosen to sign protocols with China and the USSR rather than LTAs, which require EC approval.

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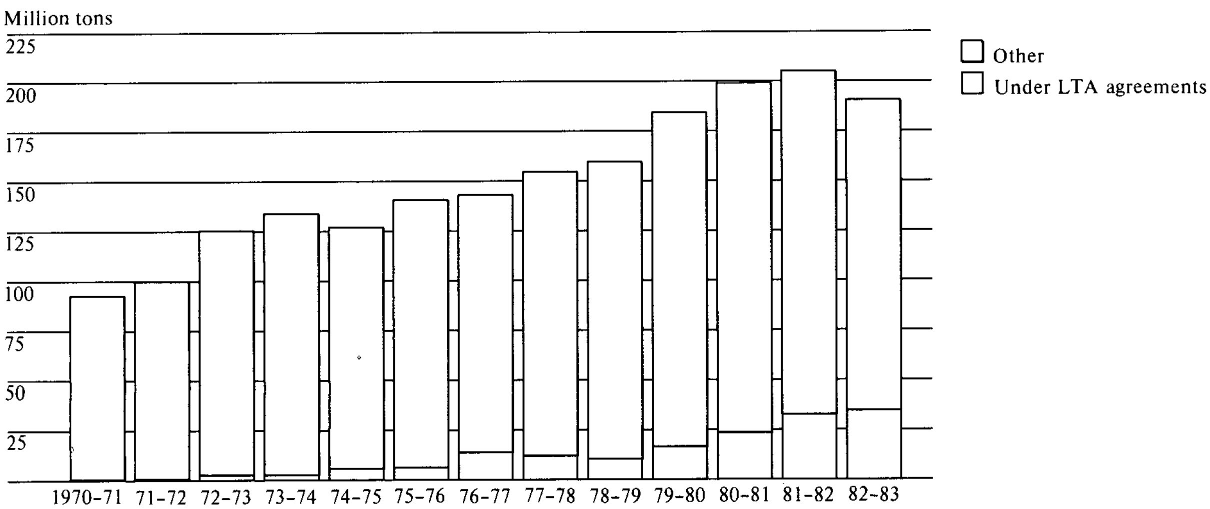
World Grain Exports[a]



[a] Including corn, sorghum, barley, oats, millet, rye, wheat, and miscellaneous grains.

[redacted]

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11 million tons annually. In addition, France signed a protocol last year for as much as 3 million tons annually. [redacted]

Future Impact of LTAs

The new five-year accord reached by Washington and Moscow will boost the US share of the Soviet market from less than 20 percent to at least 30 percent in MY1984, assuming imports of 25-30 million tons. Under the terms of the new agreement, the Soviets must purchase a minimum of 9 million tons of US wheat and corn each year. An additional 3 million tons of US grain can be bought without additional consultations. If the Soviets choose, they can satisfy up to 1 million tons of the minimum purchase requirement by importing 500,000 tons of US soybeans or soybean meal. So far, the Soviets have bought the minimum 6 million tons specified in the current agreement, which lapses on 30 September. [redacted]

The new US-USSR agreement is likely to mark the end of major new grain commitments until late 1984. Major importers are not in a position to enter into new LTA commitments:

- The *USSR* and *China* already have LTAs with most of the major exporters, which accounted for roughly 60 percent and 85 percent, respectively, of total grain imports last year.

- *Japan*, the world's second-largest grain importer, has well-established grain trade relationships with the United States, Canada, Australia, and Argentina as do other industrialized grain importing nations. An LTA with Japan would accomplish little more than putting down on paper what is already done in practice.

- Many *LDCs* are suffering from severe hard currency shortages. Any grain agreements with these countries would probably need to include provisions for supplier credits, which the exporters are loath to give.

- *Eastern Europe* is in a situation similar to that of the LDCs: the need for grain imports exists, but the hard currency to buy it does not. East European grain imports have been steadily falling as the flow of Western credits has dried up, and Poland's LTAs with Canada and France have been allowed to lapse. Recently, Western Europe and Canada have made grain financing available to Eastern Europe. However, Eastern Europe has become increasingly concerned about its indebtedness to the West and may restrict grain imports rather than incur additional short-term debt. [redacted]

Beginning in late 1984, most of the LTAs now in effect will come up for renewal. As things now stand, there is nothing on the horizon to suggest that Western capitals will not pursue grain accords with the USSR:

- The Argentines reportedly have pressed—unsuccessfully—for larger Soviet purchase commitments under their LTA since the agreement was signed in 1980, even though Moscow imported 50 to 75 percent of Buenos Aires's exportable grain surplus for the past three years.

- Australian officials publicly stated earlier this year their plans to pursue negotiations for a long-term accord with the Soviets, noting that Australia is the only major wheat exporter without an LTA with the USSR.

- Canada has courted Soviet grain purchases by offering discount prices and government-backed grain credits; [redacted] Moscow has become an increasingly important customer, supplanting China as Ottawa's primary importer. [redacted]

We believe that, unless market conditions or strategic perspectives change, competition among the major non-US exporters will intensify. With about 90 million tons in excess supplies already on hand

USSR and China: Expiration of Major LTAs [a]

	Expiration Date	Million Tons
Total		**22.0-29.7**
China–United States	December 1984	6.0-8.0
China-Argentina	December 1984	1.0-1.5
China-Australia	December 1984	1.5-2.5
USSR-France [b]	June 1985	1.5-3.0
China-Canada	July 1985	3.5-4.2
USSR-Argentina	December 1985	4.0
USSR-Canada	July 1986	4.0-6.0
USSR-Brazil	December 1986	0.5

[a] The USSR-US long-term grain agreement has been negotiated, but not yet signed into law. 25X1
[b] Protocol agreement.

[redacted] 25X1

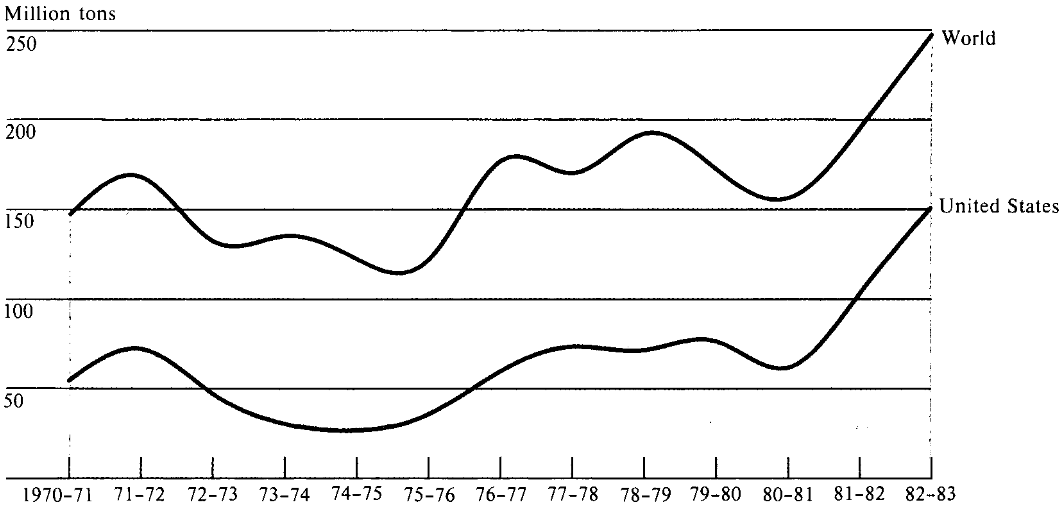
and a continuing grain glut likely, foreign exporters will be forced to be aggressive. This would put the importers in the driver's seat in negotiating new agreements. Grain exporters, fearing loss of their market shares, would be anxious to renew their LTAs, probably on terms favorable to the East. [redacted] 25X1

Before the next round begins, Moscow is likely to start laying the groundwork for its LTA renewal negotiations. We expect Moscow to:

- Stress to each exporter the concessionary terms others are offering. These terms might include wide purchase commitment ranges, credit provisions, and delivery guarantees. The Soviets may try to use the terms and even the wording of the new US-USSR agreement to pressure other exporters. They will point to any aspect—such as 25X1 the 12-million-ton maximum purchase ceiling—that makes it seem the need for non-US grain has been lessened. 25X1

- Be amenable or even anxious to negotiate a grain accord with Australia. Although the amount of grain involved probably would not be large, it

World Grain Stocks



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would provide Moscow with further guarantees of supply and a card to play with other suppliers.

- Carefully monitor crop developments and production expansion or reduction policies in the key producing countries—the United States, Canada, Argentina, Australia, Brazil, and the EC. Any signs of bumper crops or production expansion efforts will likely be used as a wedge to split the major exporters. In negotiating a new accord with Argentina, which is the USSR's first major LTA to expire, Moscow may try to demonstrate that Argentina needs the Soviet market rather than vice versa. The Soviets could hold up the ambitious grain production programs undertaken by the other exporters as a reminder that grain supplies promise to increase and that Moscow can afford to wait. Furthermore, Argentina's own desire to increase grain production 50 percent will weaken its bargaining position.

- Test the waters for signs that non-US exporters are anxious to strike new deals before their respective LTAs come up for renewal. This tactic would become increasingly important if Moscow perceived a lessening in Western overproduction or a more determined stance by the exporting countries. 25X1

Moscow also will watch closely to see how Beijing plays its hand vis-a-vis the major grain exporters. China—the world's third-largest grain importing nation—has three agreements, including one with the United States, which expire in December 1984. The extent to which China gains the upper hand in LTA negotiations will determine somewhat the strength of the Soviets' negotiating position. Since the Chinese talks will set the tone for future Soviet negotiations, they will serve to increase Soviet interest in working behind the scenes well before the current round of LTAs begins to expire. 25X1

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